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PROGRAMME PLANNING

Matters relating to the programming cycles

Report of the Administrator

SUMMARY

In the present report, various matters relating to the fifth and sixth programming cycles are discussed. Information is included on the current status of resources and programme build-up for the fifth cycle as well as the programme planning framework established for the remaining years of the cycle. A complete list of and explanations for the indicative planning figures for the fifth cycle are provided. In response to decision 91/29, various issues relating to the methodology for allocation of programme resources in the sixth cycle are also discussed.

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I. INTRODUCTION

1. In the present report, the Administrator provides detailed information on various matters relating to the fifth and sixth programming cycles. In section II, the current status of resources and programme build-up for the fifth cycle as well as the programme planning framework established for the remaining years of the cycle are discussed. In section III, the revised and final indicative planning figures (IPFs) for the fifth cycle are presented. In accordance with the request of the Governing Council contained in decision 92/30 of 26 May 1992, a complete list of the IPFs for the fifth cycle is provided, with explanations for them. This list reflects revised IPFs for some countries/programmes that result from changes in basic data, as authorized by the Council in its decision 92/29 of 26 May 1992. In section IV, in response to paragraph 13 of decision 91/29 of 25 June 1991, various issues relating to the methodology for the allocation of programme resources in the sixth cycle are discussed.

II. STATUS OF THE FIFTH PROGRAMMING CYCLE

2. In its decision 90/34 of 23 June 1990, the Governing Council established, inter alia, the financial parameters for programme activities in the fifth programming cycle (1992-1996). In doing so, the Council provided that for purposes of forward planning and for the establishment of IPFs, an annual rate of growth of 8 per cent in total voluntary contributions should be assumed from a base of $1 billion in 1991. Accordingly, targets of $1,080 million in contributions for 1992 and $1,160 million for 1993 were established. Additionally, miscellaneous income, which consists of interest income from investments and changes in the dollar value of non-dollar denominated assets, was projected to average $33 million annually in the years of the fifth programming cycle.

Status of resources

3. Voluntary contributions for 1992 (paid contributions and outstanding pledges valued as at 31 December 1992) amounted to $1,073 million. Miscellaneous income amounted to only $0.4 million, primarily because of a reduction in the value of the assets held in currencies that have depreciated vis-à-vis the dollar in 1992. The total shortfall in income for 1992 as compared to the amount assumed for planning purposes in decision 90/34 therefore amounted to approximately $40 million. Further details on income received are provided in the Administrator's annual review of the financial situation for 1992 (DP/1993/44).

4. During 1993, there has been an erosion in the outlook for resources in the fifth programming cycle because of the significant reduction in anticipated contributions for 1993 and future years by several major donors as well as the strengthening of the dollar vis-à-vis the currencies of other donors. Estimates of contributions for 1993 amount at the present time to $930 million, representing a decline of $143 million or 13.3 per cent from 1992. Of this amount, $73 million or 6.7 per cent may be attributed to exchange rate

fluctuations and $70 million or 6.6 per cent to reductions in actual and estimated pledges. Miscellaneous income for 1993 is estimated to be $26 million.

5. Thus, the combined shortfall in resources for 1992 and 1993, from the planning figures assumed in decision 90/34, amounts to $277 million. Based on the current estimate of contributions in the remaining years of the fifth cycle, it has become doubtful that the IPFs, as established, will be fully financed. It has, therefore, become necessary for the Administrator, in the interests of prudent financial planning, to establish a revised planning framework for the fifth cycle and to take the appropriate actions necessitated by this decision.

6. Before describing those actions, it is useful to review briefly the developments in the programmes in the third (1982-1986) and fourth (1987-1991) cycles since they have a significant bearing on the strategies that are necessary at the present time. A summary of the essential elements of income and expenditures as well as balances of available resources during this period is provided in table 1.

Third programming cycle

7. The third cycle was characterized by a strong dollar during most of the years of the cycle, a fact that had a significant impact on both contributions and programme expenditures. As table 1 shows, contributions during the third cycle, valued in United States dollar terms, stayed practically the same in the first four years and thus did not meet the growth targets established at the beginning of the cycle. As a result, IPFs were reduced during the cycle to 55 per cent of the levels originally established. IPF programme expenditures also decreased during most of the years of the cycle, partly as a result of the strengthening dollar and its impact on the cost of project inputs but also, as several studies carried out at that time showed, because of the changing nature and requirements of technical cooperation activities such as the increasing use of national inputs. The latter required several adjustments in the delivery processes and mechanisms of the United Nations system and, for a transitionary period, may have limited increases in programme delivery. As a result of these factors, there was an excess of income over expenditures during these years and the balance of available resources increased from a deficit balance of $56 million at the beginning of the third cycle to $257 million at its end.

Fourth programming cycle

8. During the fourth cycle, there was a strong growth in the dollar value of non-dollar denominated voluntary contributions received, partly because of a weakening of the dollar during this period. Thus, contributions increased from $659 million in 1985 to $931 million in 1988. Additionally, there was a significant increase in miscellaneous income because of increases in investment income as well as exchange gains from the weakening dollar. These increases in resources led the Governing Council to authorize an increase in total IPFs for the period by an amount of $512 million or an across-the-board increase of 16 per cent in IPFs of individual countries/programmes. At the same time, several measures were undertaken by UNDP and the agencies to enhance the capacity of the United Nations system to deliver an increased level of programme

Table 1. Summary of income and expenditure for activities financed from voluntary contributions, third to fifth cycles (1982-1996)

(Millions of dollars)

1	2	3	4	5	6	7	8	9
	INCOME				EXPENDITURES			
Year	Contributions	Miscellaneous income	Total (2+3)	Percentage change from previous year	Total expenditures	IPF expenditure a/	Percentage change (7) from previous year	Balance of resources available for programming b/
1982	680.0	6.4	686.4	N/A	764.0	567.8	N/A	(55.5)
1983	697.8	17.4	715.2	4.2	651.6	466.6	-17.8	(20.0)
1984	651.2	20.6	671.8	-6.1	613.2	436.7	-6.4	62.4
1985	658.9	91.3	750.2	11.7	682.3	481.5	10.3	142.0
1986	785.3	127.9	913.2	21.7	783.6	562.4	16.8	257.0
1987	880.6	155.1	1 035.7	13.4	817.5	589.0	4.7	448.1
1988	931.0	72.5	1 003.5	-3.1	954.8	675.6	14.7	495.2
1989	932.5	55.8	988.3	-1.5	1 046.0	733.5	8.6	429.2
1990	1 001.6	150.2	1 151.8	16.5	1 202.8	844.8	15.2	368.8
1991	1 054.0	13.5	1 067.5	-7.3	1 281.7	869.1	2.9	146.1
1992	1 072.8	0.4	1 073.2	0.5	1 110.6	726.6	-16.4	127.5
1993	929.2	26.5	955.7	-10.9	1 058.3	640.0	-11.9	35.6
1994	938.1	22.9	961.0	0.6	974.8	590.0	-7.8	13.0
1995	948.7	21.9	970.6	1.0	983.0	570.0	-3.4	0.3
1996	958.2	21.6	979.8	0.9	975.0	580.0	1.8	4.8

a/ Excludes expenditures relating to IPF add-on funds.

b/ It should be noted that the balances of resources available for programming shown in this table (column 9) relate to liquid resources which exclude amounts set aside for working capital purposes such as imprest accounts in UNDP field offices and UNDP operating funds with United Nations specialized agencies. Accordingly, these balances are in general smaller than those shown in UNDP financial statements as well as those included in the annual review of the financial situation for 1992 (DP/1993/44).

expenditures and thereby utilize the accumulating balances of programme resources. As a result of these actions, IPF annual programme expenditures increased from $589 million in 1987 to $869 million in 1991. The balance of resources increased from $142 million in 1985 to a peak of $495 million in 1988 and was reduced to $146 million at the end of the fourth cycle.

9. Another facet of the programme build-up achieved during the fourth cycle is reflected in the fact that IPF project budgets amounting to $1.2 billion had already been approved against the resources of the fifth cycle at the end of the fourth cycle. This is in contrast with the third cycle, when only $850 million of IPF project budgets had been approved against the resources of the fourth cycle at the end of the third cycle. Additionally, as stated in paragraph 8 above, the balance of resources at the beginning of the fifth cycle was considerably lower than it was in the previous cycle and had been planned to be reduced to zero at the end of 1995.

10. At the end of the fourth cycle, therefore, programme expenditures had reached a level that could be sustained in the fifth cycle only if the established IPFs for that cycle were to be fully financed in accordance with the targets established in decision 90/34.

Fifth programming cycle: planning framework

11. In his report on the programming cycles (DP/1992/22) as well as in his annual review of the financial situation for 1991 (DP/1992/38), the Administrator reported to the Governing Council at its thirty-ninth session that it had become apparent at that time that the target for annual increases in contributions of 8 per cent assumed in decision 90/34 was unlikely to be achieved. Accordingly, while continuing to seek increased resources and emphasizing the need to meet the established growth targets, the Administrator has been obliged, for prudent financial purposes, to assume an annual rate of growth of resources of only 4 per cent in the establishment of the planning framework for the fifth cycle. As a consequence, annual expenditure targets for 1992 and 1993 were established at $780 million and $760 million respectively i.e., an actual reduction from the level of $869 million reached in 1991. Individual UNDP field offices were also instructed to provide for a programme reserve of 10 per cent of the IPFs in the country programmes in order to limit programme planning to 90 per cent of the established IPFs.

12. The Administrator has continued to monitor closely the evolving resource outlook for the fifth cycle and has kept the members of the Governing Council informed through informal briefings in 1992. At the present time, as stated in paragraph 5 above, the Administrator has concluded, following a detailed review, that it has become necessary to revise further the planning parameters for the fifth cycle and to advise UNDP field offices that programming planning should be carried out under the assumption that only 75 per cent of the established IPFs will be available. This is based on the best estimates at the present time of resources available and on the need, in the face of the significant reduction in the balance of resources described in paragraph 8 above, to establish annual expenditure levels in such a manner that the resulting cash outflows are in balance with cash inflows during the year. Accordingly, the Administrator has further revised IPF expenditure targets for 1993 and 1994 to $640 million and $590 million respectively.

Status of project approvals in the fifth cycle

13. The resource constraints and reductions in expenditure targets described above have understandably had an impact on programme approvals during 1992 and 1993. Total IPF project budgets approved in 1992, the first year of the fifth cycle, amounted to $570 million in contrast to $900 million approved in 1987, the first year of the fourth cycle. While the introduction of new programming initiatives such as the adoption of the programme approach and the introduction of new support cost arrangements may have contributed to this apparent slow-down, total budgets approved against the fifth cycle resources at the end of 1992 amounted to approximately $1.77 billion, which is about the same level that was approved against fourth cycle IPF resources at the end of 1987. Moreover, budgets approved at the end of 1992 represent almost 53 per cent of the resources assumed to be available for the fifth cycle calculated at the planning level of 75 per cent of established IPFs. In contrast, at the same point in the fourth cycle, only 51 per cent of the final fourth cycle IPFs had been approved. It is therefore the view of the Administrator that the programme build-up so far in the fifth cycle is consistent with available resources. He intends to monitor closely the further development of the programme in the fifth cycle to ensure that it is in accordance with revised budget targets and also that the revised expenditure targets are not exceeded. For this purpose, he intends to apply strict financial management controls while taking steps to minimize disruptions to ongoing programmes.

14. The projected reduction in IPF expenditures described above will require reformulation of the expenditure patterns of certain country programmes for the fifth cycle already approved by the Governing Council at its special session in February 1993 and in prior years. Also, as reviews of individual programmes are carried out, it may become necessary to defer or eliminate priority programmes and projects under development for which resources may no longer be available. Additionally, the resource constraints and prospects of reduced new project approvals may have the effect of constraining the successful implementation of several important legislative and policy initiatives undertaken in recent years, including the new support cost arrangements, as there may not be a sufficient critical mass of project activities to which they may be applied. The Administrator would therefore wish to emphasize again the necessity of achieving the growth targets for resources established for the fifth cycle and requests all Member States to carefully reconsider the level of their anticipated contributions to UNDP.

15. This brief review of the programming cycles shows that the management of the programme remains vulnerable to the uncertainties involved in the level of annual contributions to the programme, the impact of the fluctuations in exchange rates, and the inherent complexity of programme planning and delivery of technical cooperation activities in developing countries. This aspect of the financing, planning and delivery of UNDP programmes is discussed further in section IV in the context of its implications for the sixth programming cycle.

III. REVISED INDICATIVE PLANNING FIGURES FOR THE FIFTH CYCLE

16. In paragraph 6 of decision 92/30, the Governing Council requested the Administrator to inform the Council at its fortieth session of the complete list of IPFs for the fifth cycle. This list, which is provided in the annex to the present document, also reflects the revised IPFs for countries and programmes for which changes in basic data have occurred, as authorized in decision 92/29 of 26 May 1992; the IPFs of countries and programmes for which recipient status was granted in decisions 92/29 and 93/3; revised IPFs of countries and programmes for which IPFs had originally been calculated on the basis of preliminary estimates provided by the World Bank and which have subsequently been revised; finalized IPFs of net contributor countries computed after the accounts of the fourth cycle obligations and payments have been recorded; revised IPFs for regional programmes, recomputed to restore proportionality among regions. An explanation of each of these revisions and a summary of their impact on resources for the fifth cycle is provided in the following paragraphs.

A. IPF revisions resulting from changes in basic data

17. The Governing Council, by its decisions 92/29 and 93/3, requested the Administrator to inform it at its fortieth session of any revised basic data and their effect on the computation of the indicative planning figures. In accordance with the provisions of paragraph 4 of decision 88/8 (also reconfirmed in para. 13 of DP/1992/22), revisions to the established IPFs resulting from changes in the per capita gross national product (GNP) of a country will become applicable only if (a) such changes exceed the original estimate by 10 per cent and/or (b) such revisions will reduce the per capita GNP below one of the thresholds that are of special significance for IPF calculations. At the same time, downward revisions of established IPFs are not made in cases where there have been increases in estimates of GNP per capita. Accordingly, the following nine countries have qualified for IPF increases in line with these conditions: Benin; Burkina Faso; Cape Verde; Equatorial Guinea; Nicaragua; Somalia; Syria; Uganda; and Zaire. The total increase in IPFs resulting from these changes amounts to $22.8 million.

18. As mentioned in document DP/1992/22, the calculation of several IPFs as originally established were based on preliminary estimates available at that time. These estimates have now been refined by the World Bank, resulting in corrections to the IPFs already established. The finalized IPFs affecting 19 countries and involving an increase of $4.5 million have been reflected in the annex to the present document.

B. Finalized IPFs for net contributor countries

19. As requested in decision 92/31, the accounts for fourth cycle obligation and payments in respect of countries with net contributor status have been finalized as of the end of 1992. Finalized IPFs for countries with net contributor country status in the fifth cycle are included in the annex. In accordance with paragraph 5 of decision 91/29, these IPFs have been provided for from the amount originally set aside for this purpose.

20. It may also be noted that Trinidad and Tobago, with a population of 1.26 million in 1989, satisfies the criteria for designation as a small island developing country in the fourth programming cycle, in line with the revised definition for such status provided in decision 90/34. Accordingly, the net contributor status for Trinidad and Tobago in the fourth cycle has been waived.

C. Revision in regional IPFs

21. In accordance with paragraph 24 of decision 90/34, regional IPFs were established for the five regions concerned at the end of 1990 in proportion to total country IPFs for each region. Since that time, $148 million of additional country IPFs (including those mentioned in paras. 17 and 18 above) have been issued, thereby changing the proportionality of individual regional IPFs to total regional IPFs as well as to total country IPFs of the regions concerned. In particular, the country IPFs for the European region have increased from $36.7 million, as originally established, to the current level of $80.2 million, mainly as a result of the decisions of the Governing Council to grant recipient status to the countries of the former Soviet Union. It has been computed that strict proportionality will be restored by increasing the regional IPFs for Europe and the Commonwealth of Independent States by $4.6 million and the regional IPF for Latin America and the Caribbean by $0.8 million and decreasing the combined regional IPFs of the other three regions by an equal amount. As downward revisions of IPFs are precluded by decision 88/8, it is proposed that only the increases in the regional IPFs of Europe and the Commonwealth of Independent States and Latin America and the Caribbean be authorized.

D. Designation of "as if" least developed country (LDC) status for Albania

22. The Governing Council has been informed in document DP/1993/67 of the request of Albania to be granted "as if" LDC status. Should the Council decide to grant this status, the increase in the IPF of Albania would amount to $1.6 million.

E. Recipient status and establishment of IPF for Eritrea

23. It has come to the attention of the Administrator that Eritrea is expected shortly to become a member of UNDP and to request the Governing Council for designation as a recipient country. This follows a referendum held in April 1993 in Eritrea, as a result of which it is expected to become independent in May 1993. The Administrator requests the agreement in principle of the Council that recipient country status be granted to Eritrea at the appropriate time upon its admission to UNDP. If such status is granted in 1993, the IPF for Eritrea for the four years remaining in the fifth cycle would amount to $28.4 million; if such status is granted in 1994, the IPF for the three years remaining in the fifth cycle would amount to $21.3 million.

F. Summary of impact of revisions on distribution of IPFs

24. Table 2 summarizes the impact of the IPF revisions described above on the total distribution of IPF and Special Programme Resources (SPR) for the fifth cycle. It should be noted that the Governing Council, in paragraph 4 of its decision 92/30, has authorized the Administrator to continue to issue IPF allocations within the overall planning framework established in decision 90/34. As discussed in section II, the expenditures resulting from these IPFs will be contained within the resources actually available to the programme.

Table 2. Distribution of IPF and SPR

(in millions US dollars)

	Distribution as per decision 90/34	Distribution incorporating results of Governing Council decisions cited a/	Distribution incorporating revisions specified in paragraphs 17, 18, and 21 b/	Proposed distribution, including provisions of paragraphs 22 and 23 c/
Country	3 485	3 605	3 633	3 663
Regional	399	399	404	404
Global and interregional	179	179	179	179
Unallocated	100	-	-	-
IPF subtotal	4 163	4 183	4 216	4 246
SPR	313	313	313	313
Total	4 476	4 496	4 529	4 559

a/ As per Governing Council decisions 92/8, 92/29, 92/30 and 93/3.

b/ See annex I.

c/ Subject to Governing Council approval.

IV. ISSUES CONCERNING ALLOCATION OF PROGRAMME RESOURCES IN THE SIXTH PROGRAMMING CYCLE

25. In paragraph 13 of its decision 91/29, the Governing Council requested the Administrator to prepare for its consideration at the fortieth session an issues paper on the methodology for allocating programme resources of the UNDP in the sixth programming cycle as well as on certain questions relating to graduation contained in document DP/1991/24. The Council also specified in decision 91/29 that its consideration of the issues paper is to serve as the basis for the elaboration of a conceptual paper on this matter. Such a conceptual paper would need to be prepared for the forty-first session of the Council (1994), preparatory to the establishment by the Council of a planning framework for the sixth programming cycle at its forty-second session (1995). Thus, the present paper should be seen as the start of an extended review of the issues surrounding the mobilization and allocation of programme resources, based on experience with the earlier programming cycles, that will eventually lead to the establishment of a framework for the sixth cycle.

A. Funding mechanisms

26. Since the introduction of country programming in the early 1970s, the financing and programming system of UNDP has required forward planning of resources over a period of five years while contributions continue to be made on a voluntary and annual basis by donors. The challenges of managing a programme under such circumstances, and the vulnerabilities it has been subject to, have been described in section II. Over the years, UNDP has developed various management tools and instruments which have enabled it to ensure that available resources are promptly programmed and delivered and that resource inflows and outflows are in balance, both on an annual basis as well as over a cycle.

27. Recognized implicitly in the present IPF system, introduced through General Assembly resolution 2688 (XXV) (known as the "Consensus"), is the need to provide developing countries with an indication of resources projected to be available during an IPF period on a predictable and assured basis. While IPFs are by definition indicative only and should not be construed as representing legal commitments, they are nevertheless expected to constitute a reasonable and firm basis for programming the resources for a cycle. By this measure, however, the IPF system has not proven to be an ideal planning mechanism. A review of programme expenditures during the last several programming cycles shows that widely varying percentages of the IPFs established at the start of the various cycles were delivered during the cycles. Thus, 98 per cent of the IPFs were delivered in the second cycle; 51 per cent in the third cycle; 112 per cent in the fourth cycle; and if present trends continue, approximately 75 per cent will be delivered in the fifth cycle.

28. During the same period, there has also been a significant change in the composition of the various sources of income of UNDP. As shown in table 3, voluntary contributions constituted 88 per cent, 80 per cent, 75 per cent and 73 per cent of total resources in the first, second, third and fourth cycles respectively; such pledges are estimated to amount to only 61 per cent in the fifth cycle. In contrast, cost-sharing contributions amounted to five per cent and seven per cent in the first and second cycles respectively; increased to

12 per cent and 13 per cent in the third and fourth cycles respectively; and are expected to amount to 24 per cent in the fifth cycle. Additionally, resources made available under various trust funds amounted to five to eight per cent in the second through fourth cycles but are expected to increase to 14 per cent in the fifth cycle. In addition to these resources, UNDP carries out activities under Management Service Agreements (not shown in table 3 below), which, in the fifth cycle, are expected to reach levels equivalent to an additional 10 per cent of total resources.

Table 3. Percentage distribution of UNDP resources over programming cycles

Source	First cycle	Second cycle	Third cycle	Fourth cycle	Fifth cycle (estimated)
Voluntary contributions	88	80	75	73	61
Cost-sharing and Government cash counterpart contributions	5	7	12	13	24
Trust funds	5	8	7	7	14
Miscellaneous income	2	5	6	7	1
Total	100	100	100	100	100

29. Based on these data, it is clear that there has been an erosion in the role of the central funds of UNDP that finance the IPFs. While the increase in alternate sources of income are welcome and valuable for the specific purposes for which they are intended, they do not compensate or substitute for the IPFs, which are considered by developing countries to be an essential grant facility for general-purpose technical cooperation activities. The comparative advantages of UNDP, including its universality and neutrality, depend upon the existence of a strong central fund and the diminishing role of the latter cannot but compromise those advantages.

30. Based on the experience described above, it is apparent that a longer-term and viable financing modality for UNDP should possess certain essential characteristics. These should include, inter alia, predictability, continuity, assuredness and growth. Predictability of resources is essential for UNDP, as technical cooperation programmes, especially in the areas of capacity-building and institution-building, extend over many years and it is necessary for UNDP to have prior knowledge of resources likely to be available over these periods. For purposes of continuous programming and to avoid disruptions to ongoing activities, UNDP requires continuity in its financing and needs to be able to assume that contributions will extend beyond current-year pledges. At the same time, it is necessary to be assured that pledges are not just indicative but that they will be honoured. Lastly, programming over the last several cycles has always assumed that there would be an annual growth in contributions and

that such growth would occur not merely in nominal terms but in real terms also. It was envisaged in the Consensus that at a minimum "the resources of the Programme will increase at least at the same rate as the average of the last few years".

31. The search for a financing mechanism that permits a greater degree of predictability, assurance and continuity in resources has continued over the last several years. In the past, the Governing Council has reviewed various mechanisms that might satisfy these criteria. Such mechanisms ranged from multi-year voluntary pledges at the one end to assessed contributions at the other. Other mechanisms, including replenishment schemes, revolving funds and other negotiated instruments, have also been discussed among the donor community. However, in the past it has not been possible to implement these various alternatives, partly because of the parliamentary and fiscal appropriation procedures of several donor governments.

32. In this context, the proposals contained in The United Nations in Development, the final report of the Nordic UN Project, published in 1991, may be of particular interest. A broadened funding base is proposed in the report for the United Nations development programmes, involving contributions from three sources: assessed contributions, "negotiated" pledges and voluntary contributions. As stated in the report, the purpose of the first source is to emphasize the principle of shared responsibility among all members; the second source would raise the bulk of the resources for operational activities through arrangements similar to the replenishment exercises of the "soft windows" of the international financial institutions; and the third source would be a continuation of the present modality of voluntary contributions.

33. Discussions are also currently under way among Member States in the General Assembly relating to funding mechanisms for operational activities, including the possibility of multi-year, negotiated pledges. These discussions are taking place as part of the overall negotiations on restructuring and revitalization of the United Nations in the economic, social and related fields. There are indications that the matter will be studied further on the basis of a report by the Secretary-General providing analysis of the issues involved and proposals for new financing arrangements. UNDP intends to contribute to these discussions by sharing an analysis of its own experience on this subject. In this context and as part of the conceptual paper on the sixth cycle requested in decision 91/29, the Administrator intends to provide to the Governing Council at its forty-first session (1994), a full discussion of the subject, which would also take into account any decisions which may have been reached in the General Assembly and other forums.

B. Methodology for allocation of IPFs

34. The present methodology for the allocation of IPFs to individual countries/programmes was originally established in the mid-1970s for the second programming cycle, and its application has been continued with refinements and amendments through the third, fourth and fifth cycles. The objectives sought to be achieved, as stated in document DP/425 submitted to the Governing Council in 1979, included progressivity, rationality, and simplicity. It is useful to review whether these stated objectives continue to be valid for future

programming cycles and whether, in fact, the methodology as it has currently evolved will lead to the achievement of those objectives.

Progressivity in the allocation methodology

35. Progressivity in the allocation of resources relates to the goal of ensuring that proportionately larger resources are allocated to lower-income countries as compared to middle- or higher-income countries. This has often been expressed by the Governing Council in concrete terms by specifying that a certain percentage of total IPFs be allocated to countries whose per capita GNP falls below a specified level. Thus, for instance, the Council required that in the fifth cycle 87 per cent of the total IPFs be assigned to countries whose per capita GNP falls below $750. In fact, an analysis of the IPF distribution over the last five cycles shows that there has been a significant increase over the cycles in progressivity or the share of resources assigned to lower-income countries. This is illustrated by the fact that, as stated before, countries whose per capita GNP currently falls below $750 were assigned 87 per cent of total country IPFs in the fifth cycle; 84 per cent in the fourth; 81 per cent in the third; 69 per cent in the second; and 55 per cent in the first. Similarly, total IPFs allocated to countries currently assigned LDC status amounted to 59 per cent in the fifth cycle; 55 per cent in the fourth; 52 per cent in the third; 43 per cent in the second; and 33 per cent in the first. Thus, an increasingly strong bias in favour of lower-income countries has been introduced in the methodology for the allocation of IPF resources.

Complexity and transparency of methodology

36. Over the last five cycles, the IPF resource distribution methodology has become increasingly complex and constrained. The original methodology distributed IPF resources primarily on the basis of two indicators - per capita GNP and the size of population of a country - with lower-income countries receiving a higher share of resources than upper-income countries, and countries with larger populations receiving a higher IPF than those with smaller populations. These two indicators are assigned particular weight coefficients at various levels. By adjusting these coefficients, IPF resources can be shifted from one group of countries to another. However, various other factors have been subsequently included in the methodology, such as the establishment of supplementary points, the floor principle and supplementary caps in order to achieve specific and different purposes. As a result, effecting changes in the distribution of resources by modifying weight coefficients alone has become difficult and it has been necessary to resort to coercive adjustments in other parts of the methodology to achieve the needed changes. This became particularly apparent when the Council decreed that 55 per cent of the IPF resources should go to countries with LDC status and this objective could only be achieved by a combination of modifying the system of awarding supplementary points and by shifting resources from the regional programmes to the LDCs.

37. In addition to the perceived complexity of the methodology, its transparency and rationality also seem to have been reduced, as demonstrated by questions that are often raised (as stated earlier in DP/1991/24), such as: why do apparently similar countries, in terms of population and GNP, have different IPFs? or why do not all countries with declining per capita GNPs receive IPF increases? Also, many countries seek to know what portion of their IPF is

derived from the application of particular criteria. These and other questions arise from the interdependency or conflict of factors such as resource levels, floor amount, supplementary criteria, and the supplementary cap. The interaction between all these factors make it difficult to isolate the impact of individual factors such as the award of an additional supplementary point, or changes in basic data.

Use of indicators

38. Per capita GNP has been used in the methodology both as a factor in the determination of IPFs as well as for the establishment of threshold levels by which the Governing Council expresses various allocation objectives. Information on per capita GNP is, for the most part, received from the World Bank which computes this figure by using the well respected World Bank Atlas methodology. Under this methodology, per capita GNP in national currency is converted to United States dollars using a three-year average exchange rate and adjusted for any relative differences between the inflation rate of the country and that of the United States. The limitations of the use of GNP per capita, computed in this manner, to determine the development needs of a country have been pointed out by several practitioners in the field. Also, it is the Administrator's understanding that these data are used by the World Bank primarily to determine the lending category in which a particular country should be placed for International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) financing, and not, as in the case of UNDP, for the precise determination of IPF levels. The demand for precision in the data for the latter purpose is obviously greater than for the former and may not be fully satisfied by the information currently available.

39. It has also been suggested that the use of per capita GNP as a criterion to determine technical cooperation needs and resource levels is not wholly appropriate. Estimates of economic output such as per capita GNP are imprecise and subject to frequent and often significant revisions. Also, per capita GNP captures economic events at a single point in time without due reference to the volatility in economic performance and trade experienced by many developing countries whose economies are dominated by a single or few commodities. Additionally, for countries where economic activities have declined rapidly, but where exchange rates have remained fixed, the per capita GNP is usually distorted. Thus, questions remain about the basic data and relevance of GNP per capita as a main basis for country IPF distribution. Multiple and/or composite indices, including possibly those reflecting human development and social indicators, may provide an alternative basis for the distribution of IPF resources.

Graduation

40. In discussing the principles for allocating resources, it is also useful to review the policy on graduation. In the fifth cycle, this policy is incorporated mainly in decision 91/29.

41. It has been stated that an appropriate policy on graduation should require that for countries with differential income levels, the entitlements to UNDP resources should decrease and obligations to the programme increase progressively and gradually as income levels rise. However, in accordance with

present policy, net contributor status is triggered somewhat arbitrarily and suddenly for countries for which GNP per capita is greater than $3,000. After this level, IPFs need to be reimbursed in full and a substantial part of the costs of UNDP field offices (except for those of the Resident Representative and the Deputy Resident Representative under certain circumstances) borne by the Government concerned. In contrast, no graduated, mandatory obligations exist for countries that fall below this threshold level. It has been claimed that these net contributor provisions are punitive in nature and limit the ability of some countries to participate fully and effectively in UNDP programmes.

42. The principle of universality, by which all countries are eligible to participate in the Programme, is a central and essential feature of UNDP. This principle does not, however, require a net flow of resources to all countries and indeed encourages countries in a position to do so to become net contributors to the Programme. Also, the self-donor role embodied in government cost-sharing or government funding of Management Service Agreements for the development purposes of the country itself should not be minimized in this connection.

Conclusion

43. The Administrator believes that at the present time UNDP would benefit from a general discussion of the issues described above. He intends that on the basis of such a discussion, UNDP should proceed to consult broadly on this subject with Governments and prepare a comprehensive conceptual paper to be submitted to the Governing Council at its forty-first session (1994).

Annex

FINAL INDICATIVE PLANNING FIGURES (IPFs) FOR THE FIFTH CYCLE
(In thousands of dollars)

COUNTRIES AND TERRITORIES	STATUS a/		Population 1989 b/	GNP per capita 1989 (US$)	Fourth cycle IPF c/	Fifth cycle IPF c/	IPF per capita (US$)
AFRICA							
ANGOLA	LDC		9.69	600	24.520	31.906	3.29
BENIN	LDC		4.59	340	29.190	34.750	7.57
BOTSWANA	LDC		1.22	950	6.483	7.251	5.94
BURKINA FASSO	LDC		8.78	260	46.900	55.327	6.30
BURUNDI	LDC		5.30	210	33.622	48.882	9.22
CAMEROON			11.55	1,010	16.820	15.138	1.31
CAPE VERDE	LDC	SIDC	0.37	630	6.670	7.295	19.72
CENTRAL AFRICAN REPUBLIC	LDC		2.95	380	24.825	27.162	9.21
CHAD	LDC		5.54	190	42.254	46.330	8.36
COMOROS	LDC	SIDC	0.46	460	7.862	11.553	25.11
CONGO			2.21	930	6.501	6.060	2.74
COTE D'IVOIRE			11.71	790	18.008	16.275	1.39
EQUATORIAL GUINEA	LDC		0.34	310	10.380	11.375	33.46
ETHIOPIA	LDC		48.86	120	91.061	117.782	2.41
GABON			1.11	3,230	2.840	2.269	2.04
GAMBIA	LDC		0.85	320	12.790	25.759	30.30
GHANA			14.43	380	35.810	42.582	2.95
GUINEA	LDC		5.55	430	33.096	35.801	6.45
GUINEA-BISSAU	LDC		0.96	180	19.141	27.592	28.74
KENYA			23.28	370	40.770	46.891	2.01
LESOTHO	LDC		1.72	520	3.290	20.324	11.82
LIBERIA	LDC		2.48	500	13.424	21.497	8.24
MADAGASCAR	LDC		11.17	220	40.660	66.878	5.99
MALAWI	LDC		8.23	180	45.889	62.134	7.55
MALI	LDC		8.21	260	50.279	57.634	7.02
MAURITANIA	LDC		1.95	490	15.561	23.222	11.91
MAURITIUS		SIDC	1.06	2,150	4.340	3.910	3.69
MOZAMBIQUE	LDC		15.36	80	66.009	92.969	6.05
NAMIBIA	LDC		1.82	1,200	13.180	11.862	6.52
NIGER	LDC		7.48	290	37.326	53.167	7.11
NIGERIA			113.67	250	38.741	119.993	1.06
RWANDA	LDC		6.89	310	36.846	42.973	6.24
SAO TOME AND PRINCIPE	LDC	SIDC	0.12	420	3.288	4.872	40.60
SENEGAL	LDC		7.21	650	29.010	31.381	4.35
SEYCHELLES		SIDC	0.07	4,550	1.290	1.031	14.73
SIERRA LEONE	LDC		4.04	200	23.223	41.426	10.25
SWAZILAND			0.76	910	5.060	4.552	5.99
TOGO	LDC		3.51	390	24.776	28.699	8.18
UGANDA	LDC		16.77	210	50.430	78.601	4.69
UNITED REPUBLIC OF TANZANIA	LDC		25.63	120	57.512	99.811	3.89
ZAIRE	LDC		34.44	230	56.930	84.369	2.45
ZAMBIA	LDC		7.84	410	20.710	39.342	5.02
ZIMBABWE			9.57	640	18.773	23.796	2.49

COUNTRIES AND TERRITORIES	STATUS a/			Population 1989 b/	GNP per capita 1989 (US$)	Fourth cycle IPF c/	Fifth cycle IPF c/	IPF per capita (US$)
ASIA AND THE PACIFIC								
AFGHANISTAN	LDC			19.90	200	60.436	70.039	3.52
BANGLADESH	LDC			111.59	180	135.668	163.173	1.46
BHUTAN	LDC			1.40	150	25.167	27.892	19.92
BRUNEI DARUSSALAM		NCC		0.25	16,000	0.502	0.000	0.00
CAMBODIA	LDC			8.05	150	36.500	51.703	6.43
CHINA				1105.07	360	163.331	176.660	0.16
COOK ISLANDS			SIDC	0.02	1,550	1.203	1.083	54.15
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA				22.42	700	17.334	21.742	0.97
FEDERATED STATES OF MICRONESIA			SIDC	0.10	980	1.600	2.340	23.40
FIJI			SIDC	0.74	1,640	2.955	2.659	3.59
INDIA				832.54	350	156.120	156.120	0.19
INDONESIA				178.21	490	65.686	81.384	0.46
IRAN (ISLAMIC REPUBLIC OF)				50.20	2,570	11.820	9.455	0.19
KIRIBATI	LDC		SIDC	0.07	700	2.101	2.326	33.22
LAO PEOPLE'S DEMOCRATIC REPUBLIC	LDC			4.06	170	37.969	42.156	10.38
MALAYSIA				17.34	2,130	8.864	7.091	0.41
MALDIVES	LDC		SIDC	0.21	420	5.142	6.820	32.48
MARSHALL ISLANDS			SIDC	0.10	1,600	1.734	1.561	15.61
MONGOLIA				2.16	600	7.840	10.741	4.97
MYANMAR	LDC			40.80	240	83.401	93.435	2.29
NAURU		NCC	SIDC	0.01	10,230	0.050	0.000	0.00
NEPAL	LDC			18.43	170	68.368	77.772	4.22
NIUE			SIDC	0.00	1,800	0.860	0.774	193.40
PAKISTAN				109.95	370	73.299	87.638	0.80
PAPUA NEW GUINEA				3.81	900	11.650	10.485	2.75
PHILIPPINES				61.22	700	29.962	39.519	0.65
REPUBLIC OF KOREA		NCC		42.38	4,450	10.637	4.614	0.11
SAMOA	LDC		SIDC	0.16	810	4.500	4.871	30.44
SINGAPORE		NCC		2.68	10,640	3.546	0.000	0.00
SOLOMON ISLANDS	LDC		SIDC	0.31	570	3.745	6.495	21.18
SRI LANKA				16.78	430	45.077	45.077	2.69
TERRITORY OF HONG KONG		NCC		5.77	10,560	0.295	0.000	0.00
THAILAND				55.20	1,170	29.020	26.118	0.47
TOKELAU			SIDC	0.00	830	1.197	1.197	399.09
TONGA			SIDC	0.10	910	1.656	1.656	16.56
TRUST TERRITORY OF THE PACIFIC ISLANDS (PALAU)			SIDC	0.17	1,070	0.363	0.327	1.92
TUVALU	LDC		SIDC	0.01	650	1.129	1.657	236.73
VANUATU	LDC		SIDC	0.15	860	1.906	2.291	15.27
VIET NAM				68.43	200	83.550	100.706	1.47

COUNTRIES AND TERRITORIES	STATUS a/	Population 1989 b/	GNP per capita 1989 (US$)	Fourth cycle IPF c/	Fifth cycle IPF c/	IPF per capita (US$)
ARAB STATES						
ALGERIA		24.45	2,510	11.820	9.455	0.39
BAHRAIN	NCC SIDC	0.49	6,760	1.182	0.000	0.00
DJIBOUTI	LDC	0.41	1,300	3.746	3.647	8.90
EGYPT		53.08	640	39.430	41.711	0.79
IRAQ		18.27	2,500	8.864	7.091	0.39
JORDAN		4.04	1,730	8.864	7.091	1.76
KUWAIT	NCC	2.19	16,210	0.000	0.000	0.00
LEBANON		2.89	1,000	8.562	7.706	2.67
LIBYAN ARAB JAMAHIRIYA	NCC	4.40	5,330	2.364	1.025	0.23
MOROCCO		24.57	900	22.390	20.151	0.82
OMAN	NCC	1.49	5,110	1.891	0.289	0.19
QATAR	NCC	0.42	14,900	0.709	0.000	0.00
SAUDI ARABIA	NCC	14.44	6,450	4.728	0.000	0.00
SOMALIA	LDC	6.09	130	35.300	59.980	9.85
SUDAN	LDC	24.43	510	46.745	52.729	2.16
SYRIAN ARAB REPUBLIC		12.08	870	8.860	15.379	1.27
TUNISIA		7.99	1,260	8.864	7.978	1.00
UNITED ARAB EMIRATES	NCC	1.55	18,500	0.591	0.000	0.00
YEMEN	LDC	11.17	640	42.590	42.590	3.81

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COUNTRIES AND TERRITORIES	STATUS a/	Population 1989 b/	GNP per capita 1989 (US$)	Fourth cycle IPF c/	Fifth cycle IPF c/	IPF per capita (US$)
LATIN AMERICA AND THE CARIBBEAN						
ANGUILLA	SIDC	0.01	850	1.066	1.066	133.31
ANTIGUA AND BARBUDA	SIDC	0.08	3,920	1.290	1.160	14.50
ARGENTINA		31.88	2,160	11.819	9.455	0.30
ARUBA	NCC SIDC	0.07	6,750	0.391	0.169	2.42
BAHAMAS	NCC SIDC	0.25	11,100	1.418	0.000	0.00
BARBADOS	NCC SIDC	0.25	6,500	1.477	0.641	2.56
BELIZE		0.18	1,800	1.290	1.031	5.73
BERMUDA	NCC SIDC	0.06	22,260	0.378	0.000	0.00
BOLIVIA		7.11	600	23.554	23.713	3.34
BRAZIL		147.29	2,550	17.729	14.183	0.10
BRITISH VIRGIN ISLANDS	NCC SIDC	0.02	7,400	0.258	0.112	5.60
CAYMAN ISLANDS	SIDC	0.02	3,480	0.481	0.385	17.50
CHILE		12.98	1,770	11.819	9.455	0.73
COLOMBIA		32.34	1,190	13.001	11.701	0.36
COSTA RICA		2.74	1,790	6.026	4.821	1.76
CUBA		10.51	1,500	12.115	10.903	1.04
DOMINICA	SIDC	0.08	1,900	1.360	1.223	15.29
DOMINICAN REPUBLIC		7.00	750	8.362	15.598	2.23
ECUADOR		10.33	990	8.860	12.392	1.20
EL SALVADOR		5.21	950	10.769	9.692	1.86
GRENADA	SIDC	0.09	1,920	1.289	1.289	14.32
GUATEMALA		8.95	920	7.682	10.402	1.16
GUYANA		0.80	420	10.090	13.996	17.50
HAITI	LDC	6.37	360	34.830	37.678	5.87
HONDURAS		4.88	740	11.560	13.193	2.70
JAMAICA		2.43	1,390	4.430	3.989	1.64
MEXICO		85.44	1,990	11.819	9.455	0.11
MONTSERRAT	SIDC	0.01	3,330	0.602	0.481	34.38
NETHERLANDS ANTILLES	NCC SIDC	0.20	6,360	0.649	0.282	1.41
NICARAGUA	LDC	3.74	510	10.405	26.265	7.02
PANAMA		2.37	1,780	4.432	3.546	1.50
PARAGUAY		4.16	1,030	5.760	5.868	1.41
PERU		21.14	1,060	14.770	13.297	0.63
SAINT HELENA	SIDC	0.01	540	0.473	1.405	200.69
SAINT KITTS AND NEVIS	SIDC	0.05	2,530	1.289	1.160	23.21
SAINT LUCIA	SIDC	0.15	2,300	1.290	1.160	7.73
SAINT VINCENT AND THE GRENADINES	SIDC	0.11	1,100	1.921	1.921	17.46
SURINAME	NCC	0.44	3,170	2.068	0.897	2.04
TRINIDAD AND TOBAGO	SIDC	1.26	3,160	2.364	1.891	1.50
TURKS AND CAICOS ISLANDS	SIDC	0.01	780	0.971	0.971	107.93
URUGUAY		3.08	2,510	5.910	4.728	1.53
VENEZUELA		19.24	2,420	4.728	3.782	0.20

COUNTRIES AND TERRITORIES	STATUS a/	Population 1989 b/	GNP per capita 1989 (US$)	Fourth cycle IPF c/	Fifth cycle IPF c/	IPF per capita (US$)
EUROPE AND THE COMMONWEALTH INDEPENDENT STATES 4/						
ALBANIA		3.20	900	6.648	5.983	1.87
ARMENIA		3.30	2,150	0.000	0.849	0.26
AZERBAIJAN		7.00	1,340	0.000	2.068	0.30
BELARUS		10.20	3,110	0.000	1.768	0.17
BOSNIA-HERZEGOVINA		4.48	2,490	0.000	0.857	0.19
BULGARIA		9.00	2,770	3.550	2.837	0.32
CROATIA		4.75	2,490	0.000	0.878	0.18
CYPRUS	NCC SIDC	0.69	7,330	2.955	1.282	1.86
CZECH REPUBLIC		10.36	3,659	1.060	1.198	0.12
CZECHOSLOVAKIA		15.64	5,000	1.656	0.320	0.02
ESTONIA		1.60	3,830	0.000	1.182	0.74
GEORGIA		5.40	1,640	0.000	0.749	0.14
HUNGARY		10.59	2,560	2.068	1.776	0.17
KAZAKHSTAN		16.50	1,320	0.000	3.725	0.23
KYRGHYSTAN		4.30	1,080	0.000	3.931	0.91
LATVIA		2.70	3,410	0.000	1.296	0.48
LITHUANIA		3.70	2,710	0.000	1.641	0.44
MALTA	NCC SIDC	0.35	6,030	1.477	0.641	1.83
POLAND		38.06	1,760	4.432	3.546	0.09
REPUBLIC OF MOLDOVA		4.30	1,370	0.000	1.493	0.35
ROMANIA		23.15	1,730	4.430	3.546	0.15
RUSSIAN FEDERATION		147.00	3,220	0.000	3.197	0.02
SLOVAK REPUBLIC		5.29	3,105	0.542	0.832	0.16
SLOVENIA		1.95	2,490	0.000	0.635	0.33
TADJIKISTAN		5.10	880	0.000	4.906	0.96
TURKEY		54.90	1,360	14.691	13.222	0.24
TURKMENISTAN		3.50	1,200	0.000	2.666	0.76
UKRAINE		51.50	2,340	0.000	2.135	0.04
UZBEKISTAN		19.80	980	0.000	8.975	0.45
YUGOSLAVIA		12.53	2,490	4.432	2.053	0.16

SUMMARY OF INDICATIVE PLANNING FIGURES FOR THE FIFTH CYCLE

(In thousands of dollars)

Category		Amount	Percentage
I. COUNTRY IPFs			
AFRICA	45.2%	1,632.418	
ASIA AND THE PACIFIC	37.1%	1,339.578	
ARAB STATES	6.5%	234.234	
LATIN AMERICA AND THE CARIBBEAN	7.9%	285.358	
EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES	2.2%	80.187	
TOTAL COUNTRY IPFs	**100.0%**	**3,614.365**	
of which:			
GNP per capita below $750	87.3%	3,155.984	
GNP per capita above $750	12.7%	458.381	
of which:			
LDCs	58.8%	2,123.441	
Non-LDCs	41.2%	1,490.924	
OTHER COUNTRY IPFs:			
National liberation movements (NLM) IPFs		12.000	
Caribbean multi-island IPF		3.500	
Pacific multi-island IPF		3.500	
TOTAL COUNTRY IPFs including NLM and multi-island IPFs		**3,633.365**	**86.2%**
II. REGIONAL IPFS			
AFRICA		181.600	
ASIA AND THE PACIFIC		151.400	
ARAB STATES		30.986	
LATIN AMERICA AND THE CARIBBEAN		31.471	
EUROPE AND THE COMMONWEALTH OF INDEPENDENT STATES		8.853	
TOTAL REGIONAL IPFs		**404.310**	**9.6%**
III. INTERREGIONAL IPFs		**67.000**	**1.6%**
IV. GLOBAL IPFs		**112.000**	**2.7%**
TOTAL 5TH CYCLE IPFs		**4,216.675**	**100.0%**

NOTES:

a/: LDC= Least developed country
NCC= Net contributor country
SIDC= Small island developing country

b/: World Bank Data unless otherwise indicated

c/: Actual IPFs issued to net contributor countries may be lower than the indicated IPF as per decision 85/16 para. 13 on net contributor countries provisions.

d/: Primary data are internal estimates based on World Bank and other secondary sources.